

The following brief information is provided to present the perspective on the recommendations contained in the *Executive Budget*. Further information is available in the *Executive Budget Detail* pages for each agency, which can be found at <http://www2.state.id.us/dfm>, or you may contact the appropriate DFM analyst as identified in the staff assignment list preceding the Table of Contents.

### **Themes**

- Preserving the economic engine and the future through continued commitment to education, workforce development, and economic investment.
- Providing proper safety-net care for the elderly and disadvantaged.
- Preserving Idaho's physical assets through proper maintenance and modernization of public buildings.
- Emphasizing statewide connectivity through investments in transportation infrastructure and technological advancements.
- Ensuring that Idaho's business environment remains strong for attracting and retaining business operations.
- Minimizing revenue and expenditure fluctuations through stable tax policies and fiscal management.
- Exercising restraint in budget expenditures as the state adjusts to changing economic conditions.
- Minimizing the use of one-time financial resources during transitional adjustments in expenditure patterns.
- Providing multi-year budget and revenue strategies.

### **FY 2004 Budget Highlights**

- FY 2004 General Fund normalized revenue (excluding the temporary sales tax increase and all other 2003/2004 legislation that impacted General Fund revenue) grew 5.1% over the previous fiscal year.
- The temporary sales tax increase generated \$171.6 million in FY 2004. All other legislation produced an additional \$35.2 million. The temporary cigarette tax increase was responsible for \$21.5 million of this.
- Idaho also received \$50.0 million in one-time federal Tax Relief Reconciliation Act flexible assistance funds, which was deposited into the General Fund.
- Including legislative changes and the one-time federal funds, base General Fund revenue was up 18.9% over FY 2003 base revenue.
- There was \$12.7 million in transfers to other funds, mostly deficiency warrant funds. The largest transfer was \$11.6 million to the fire suppression fund for fire fighting costs.
- There was \$4.2 million in positive supplemental appropriations and \$18.5 million in negative supplementals. One of the negative supplementals was for \$15.0 million, which reflected one-time savings generated by the federal government increasing its match rate for the Medicaid Program.
- The year ended with a General Fund balance of \$100.2 million. This was \$27.7 million higher than the balance projected at the end of the 2004 Legislative Session.

# Introduction

---

## ***FY 2005 Budget Highlights***

- FY 2005 normalized General Fund revenue (excluding 2003/2004 Legislative changes) is currently expected to grow 7.8% over FY 2004 normalized revenue (excluding 2003/2004 Legislative changes). The \$1,984.0 million estimate is \$57.7 million higher than the Legislature's February 2004 estimate.
  - Including Legislative changes the Governor's FY 2005 General Fund revenue estimate is \$2,156.9 million. Most of the \$172.8 million in additional revenue comes from the temporary sales tax increase of \$183.1 million. All other changes have a negative \$10.3 million impact.
- Because total FY 2004 General Fund receipts grew by more than 5.0% over FY 2003's receipts it will be necessary to transfer the equivalent of 1.0% of FY 2004's receipts from FY 2005 General Fund revenue (\$20,971,000 to be exact) into the Budget Stabilization Fund.
- Because FY 2004 ended with an unspent, unencumbered General Fund balance of more than \$77,220,000, a "surplus eliminator" appropriation was triggered. House Bill 805 appropriated \$5,001,000 in General Fund and \$3,798,800 in other funds to provide a one-time 1% salary increase for state employees.
- There is \$4.8 million in recommended transfers to deficiency warrant funds:
  - Department of Lands Fire Suppression Fund - \$4,400,000
  - Department of Agriculture Pest Control Fund - \$259,300
  - Military Division Hazardous Substance Response Fund - \$141,600
- There is a net total of \$25.6 million in recommended General Fund supplementals. Some of the larger positive supplementals are:
  - Department of Health and Welfare, Medicaid utilization and provider rate increases - \$15,457,900
  - Department of Health and Welfare, Children's Services caseload increase - \$2,806,900
  - Department of Correction population increase in county and contract beds - \$2,679,200
  - Department of Correction increase bed space at state facilities - \$1,580,600
  - Department of Correction medical service costs for additional inmates - \$964,700
  - Catastrophic Health Care increased health care costs - \$1,700,000
  - College and Universities building occupancy costs - \$993,100
- We expect to end the year with a General Fund balance of \$117.3 million. These funds will be used to help offset the loss of approximately \$170 million in FY 2006 General Fund revenue when the temporary sales tax expires.

## ***FY 2006 Budget Highlights***

- FY 2006 General Fund normalized revenue (excluding 2003/2004 Legislative changes) is predicted to be \$2,085.0 million. This is 5.1% over the normalized FY 2005 revenue estimate.
- Including Legislative changes, the Governor's FY 2006 base General Fund revenue estimate is \$2,090.1 million. Since the temporary sales tax increase expires on June 30, 2005, base revenue will be less than normalized revenue. Because sales tax collections are deposited the month after they are collected, we will receive about \$13.4 million in FY 2006, but this is not enough to offset the impact of all other Legislative changes most of which have a negative impact on revenue.
- The Governor is recommending that the \$21.2 million that is being deposited into the Economic Recovery Reserve Fund during FY 2005 from the temporary increase in the cigarette tax be transferred to the General Fund in FY 2006 to pay for the twenty-seventh payroll and other one-time expenses.
- General Fund expenditures grow by 6.0% over the FY 2005 original appropriation. Including the twenty-seventh payroll the growth rate is 6.7%.

- The Governor's budget leaves the FY 2006 General Fund budget with an ending balance of \$4.6 million.
- The Governor recommends that the temporary cigarette tax revenues be redirected to the Permanent Building Fund Program and the tax rate of \$0.57 per pack be made permanent.

### ***FY 2007 Budget Plan***

- The Governor's budget plan is to manage financial resources by letting the current sunset provisions of the temporary sales tax expire on June 30, 2005.
- The preliminary FY 2007 normalized General Fund revenue estimate (excluding 2003/2004 Legislative changes) is \$2,195.8 million. This is 5.3% over the normalized FY 2006 revenue estimate. Incorporating the impact of 2003/2004 Legislative changes reduces base revenue to \$2,185.6 million. This number is 4.6% over the current FY 2006 base projection.
- Since ongoing General Fund expenditures exceed ongoing revenue by over \$100 million, it will be necessary to utilize one-time reserves until General Fund revenue growth closes the gap.
- In FY 2007 there will be approximately \$125 million in reserves: \$21.0 million in the Budget Stabilization Fund and \$104.0 million in the Millennium Fund. Utilizing a portion of these funds should produce a balanced budget in FY 2007.
- Changes in the Idaho economy over recent decades demonstrate the need for reviewing our funding structure for providing state programs and services. Stable tax policies and predictable requirements for budget expenditures contribute to long-term positive growth and development of the state and reviews of these relationships should be conducted on a periodic basis.
- Calendar year 2005 is a transitional year in the state's efforts to move from a revenue mix that includes a temporary sales tax increase to a structure that recognizes the value of uniform and competitive revenue and expenditure policies. Utilization of one-time revenues to address ongoing budget requirements is a temporary situation that cannot be sustained on a long-term basis.